



# MEMPHIS LIGHT, GAS AND WATER

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## ***2016 Budget Presentation for City Council MLGW Committee***

*All dollars in thousands unless otherwise noted*

*November 17, 2015*

## Budget Schedule

- October 7, Preliminary budget to MLGW Board
- October 21, MLGW Board budget approval
- November 17, MLGW budget presentation to the City Council MLGW Committee
- December 1, City Council approval
- December 15, City Council approval of minutes

# MLGW is an Industry Leader

- Strong Financial Condition
- Low Rates
- JD Power Scores Trending Higher
- 5-Time RP3 (Reliable Public Power Provider) Award Winner

# Strong Financial Condition

- Electric prepay that saves \$15 million per year
- No debt in the Gas Division
- MLGW holds very strong credit ratings in the Electric Division and the highest possible credit rating in the Water Division
  - Electric Division ratings
    - Moody's Aa2
    - S&P AA+
  - Water Division ratings
    - Moody's Aa1
    - S&P AAA
- Very few utilities achieve a AAA rating

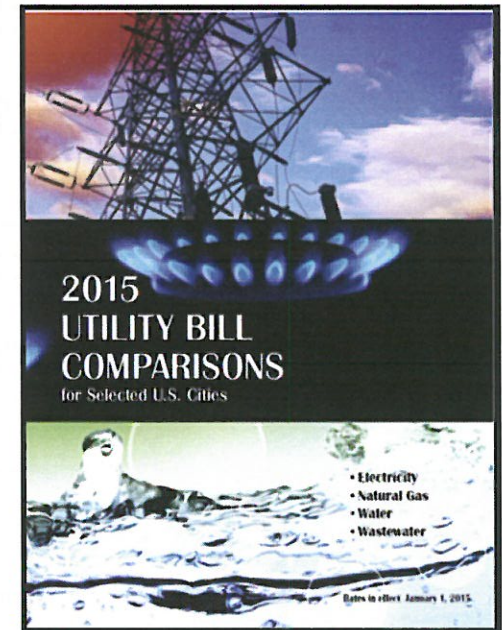
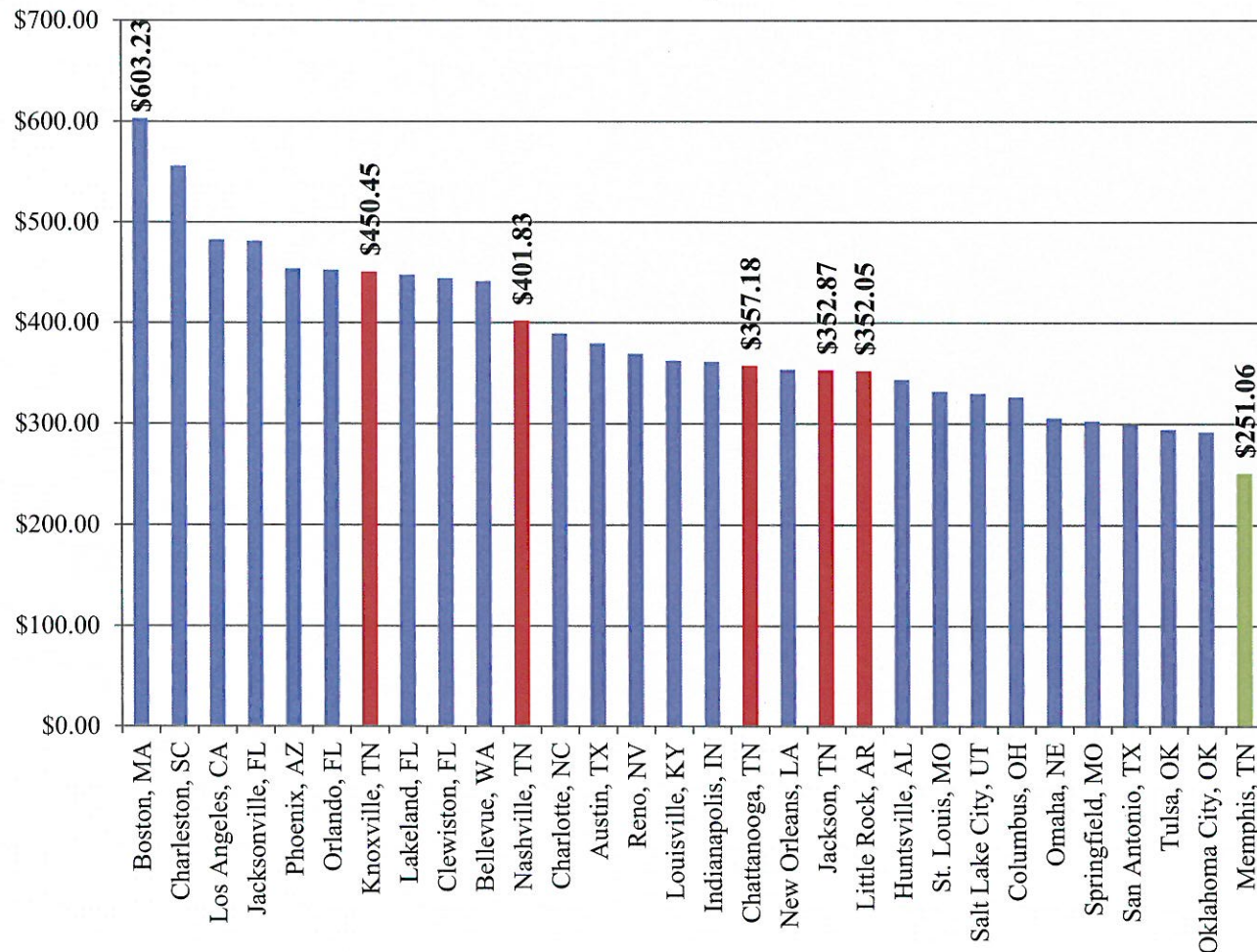


# Low Rates

- Lowest combined electric, gas, water, and sewer rates in the country
- 2<sup>nd</sup> lowest water rates in the country
- Best water supply
- Flat rates (no Electric rate increase since 2004, no Gas rate increase since 2008)

# The Lowest Residential Rates in the Nation

## MLGW 2015 Rate Survey Results:



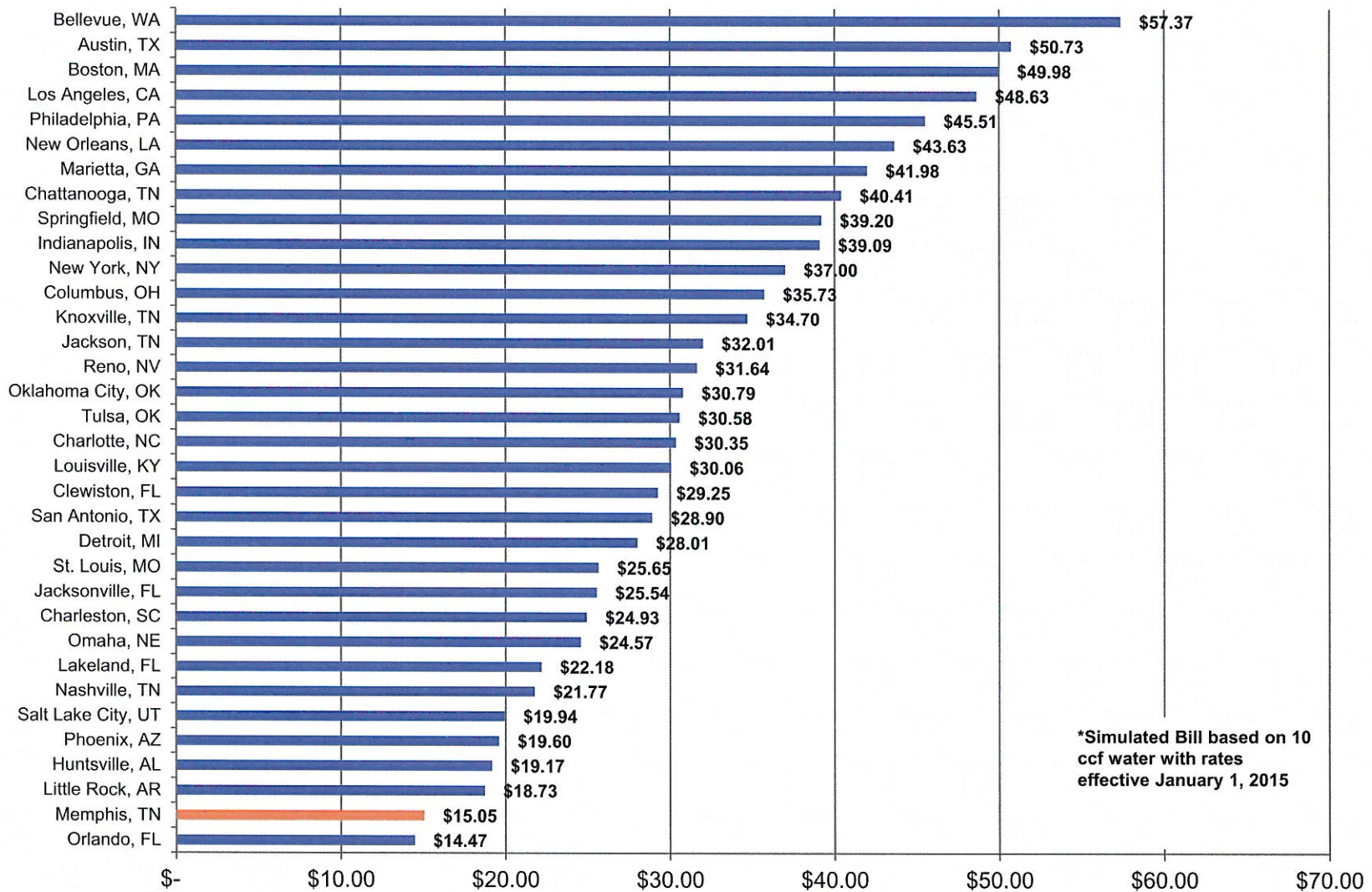
### 2015 Utility Bill Comparison:

- Surveyed 55 Utilities
- Different Geographic Locations
- Combined Utility Rates
- See Survey for Details



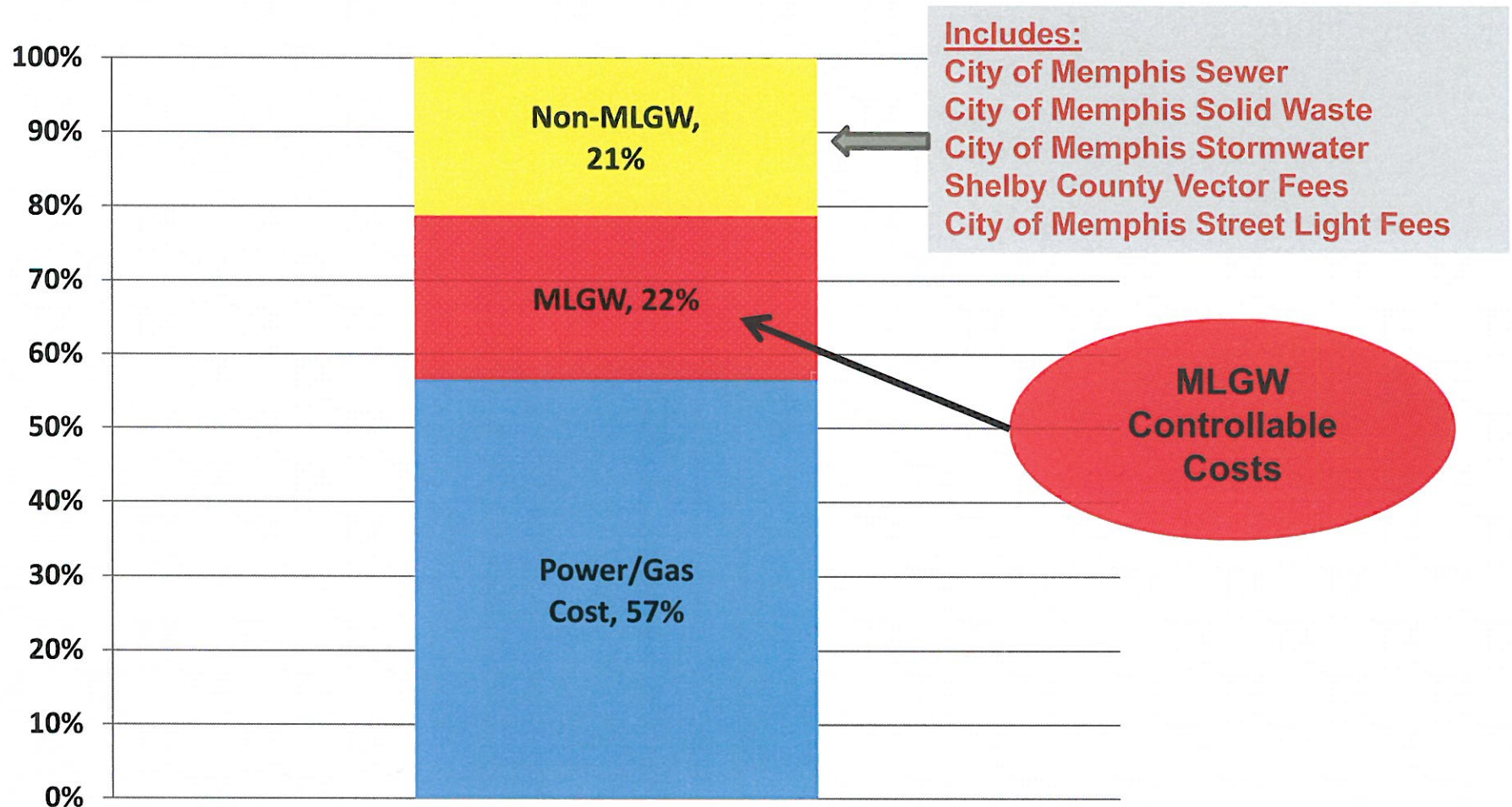
# MLGW Annual Rates Survey

## \*National Residential Water Bill Comparison



Memphis Light, Gas and Water Division Budget

# MLGW Percent of Average Residential Bill

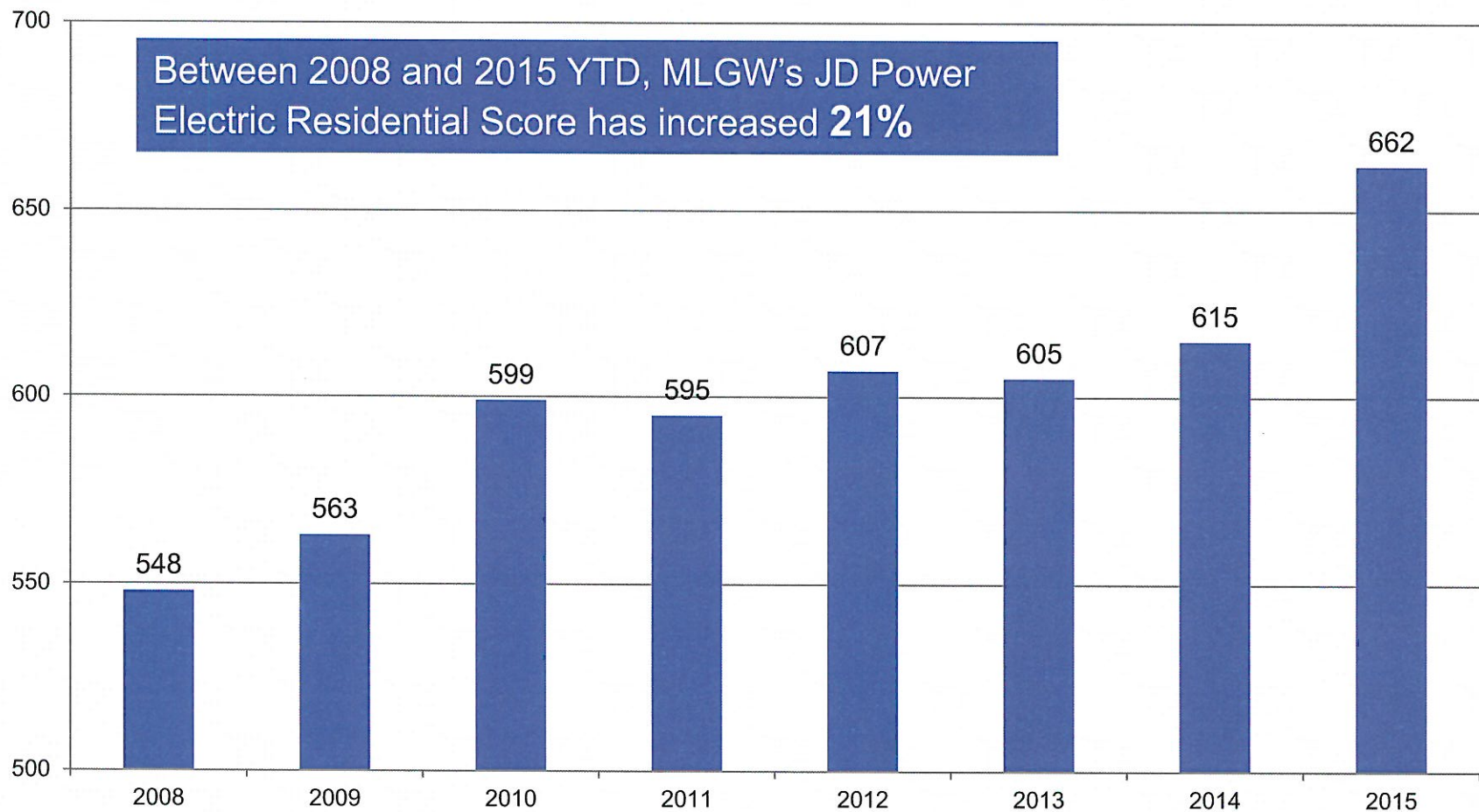




# JD Power Electric Residential Survey Results

## Measuring Customer Satisfaction

### JD Power Electric Residential Survey



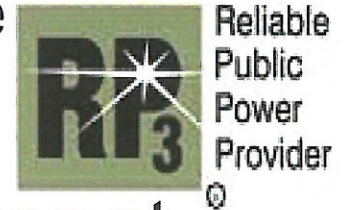
## 2016 Key Budget Drivers

- Reliability improvements - *increase free fromming #1 cause of outages*
- Increasing regulatory costs
- Pumping station rehabilitation
- Environmental remediation costs
- Streetlight maintenance efforts
- 22 net additional positions to the workforce
- Payment in lieu of taxes (PILOT)
- Water rights lawsuit legal fees
- Water rate adjustment
- Total O&M increase of 2.6%
  - 2015 O&M, \$365,158
  - 2016 O&M, \$374,452



## MLGW & Reliability

- APPA recognizes MLGW as having the highest degree of reliable and safe electric service
- MLGW is a 5-Time RP3 Award Winner
- However, trees are the #1 Cause of Outages at MLGW
- 2015 budgeted preventive tree trimming efforts total \$12.7 million
- 2016 budgeted preventive tree trimming actions include:
  - Increasing the tree trimming budget to \$14.4 million
  - Moving from a 3-4-5 year tree trimming cycle to a 3-year trimming cycle
  - Reducing annual customer minutes interrupted by a goal of 15%



# New Technology Integration

- Smart Meter Deployment – EOY 2020
  - Will Reduce Restoration Times
- Distribution Automation (Smart Switch)
  - Remote/Automated Switching to Isolate Damage and Re-Route Power
  - Outage Frequency & Duration Reduced by ~50%
  - \$6.5 million Budgeted Annually by 2020
- TripSavers® Installed on Worst-Performing Fused Laterals
  - Will Eliminate Outages Due to Momentary Faults



Smart Meter Installation  
Source: Lance Murphrey/  
Memphis Daily News



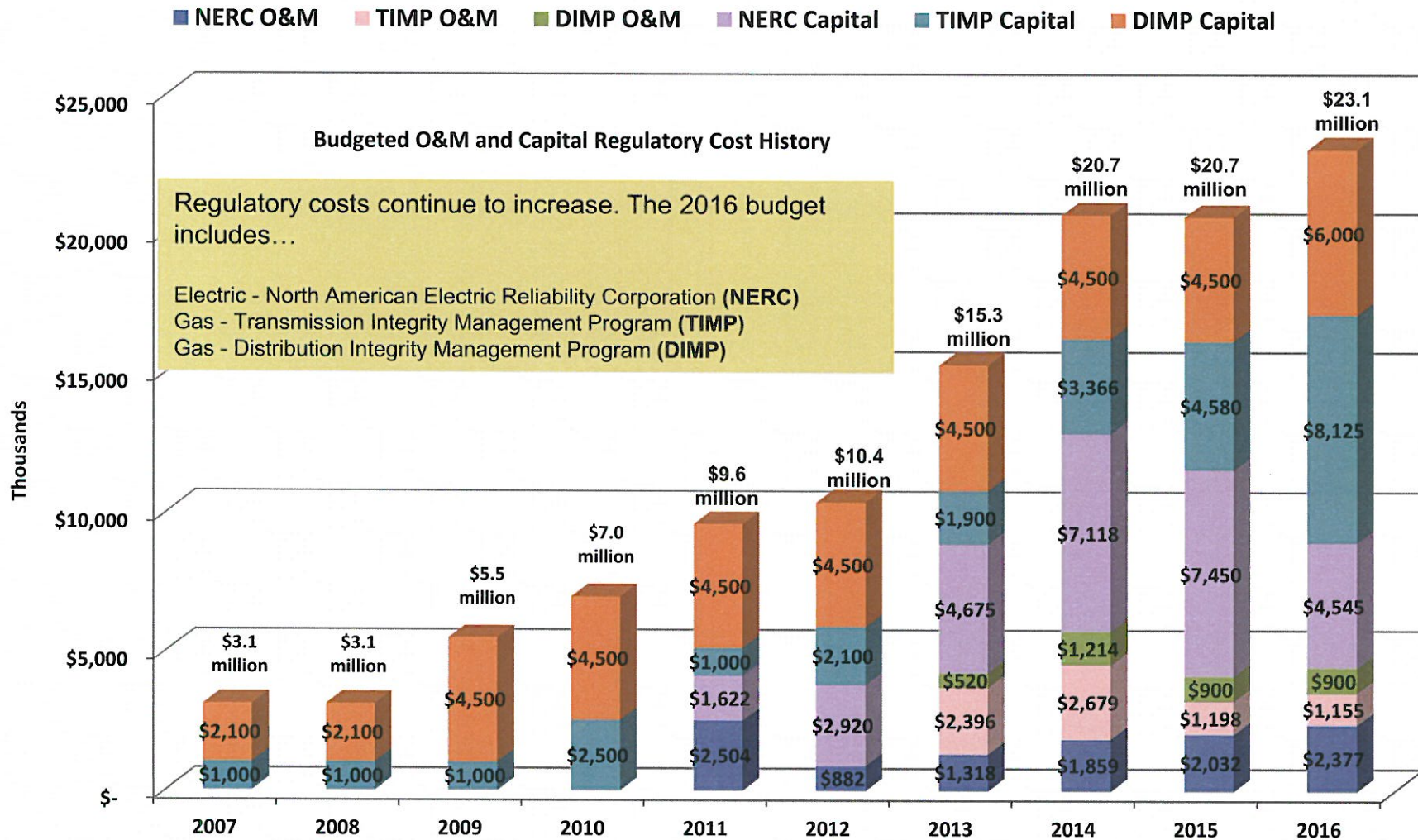
Smart Switch (S&C)



TripSaver® (S&C)

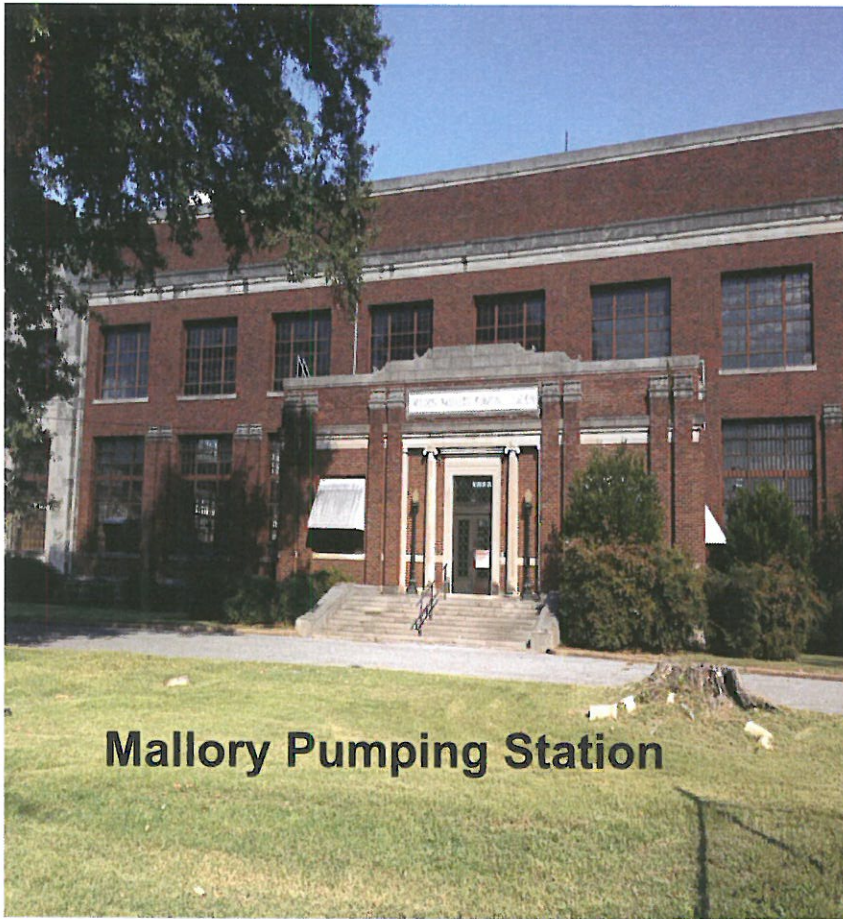


# Increasing Regulatory Costs



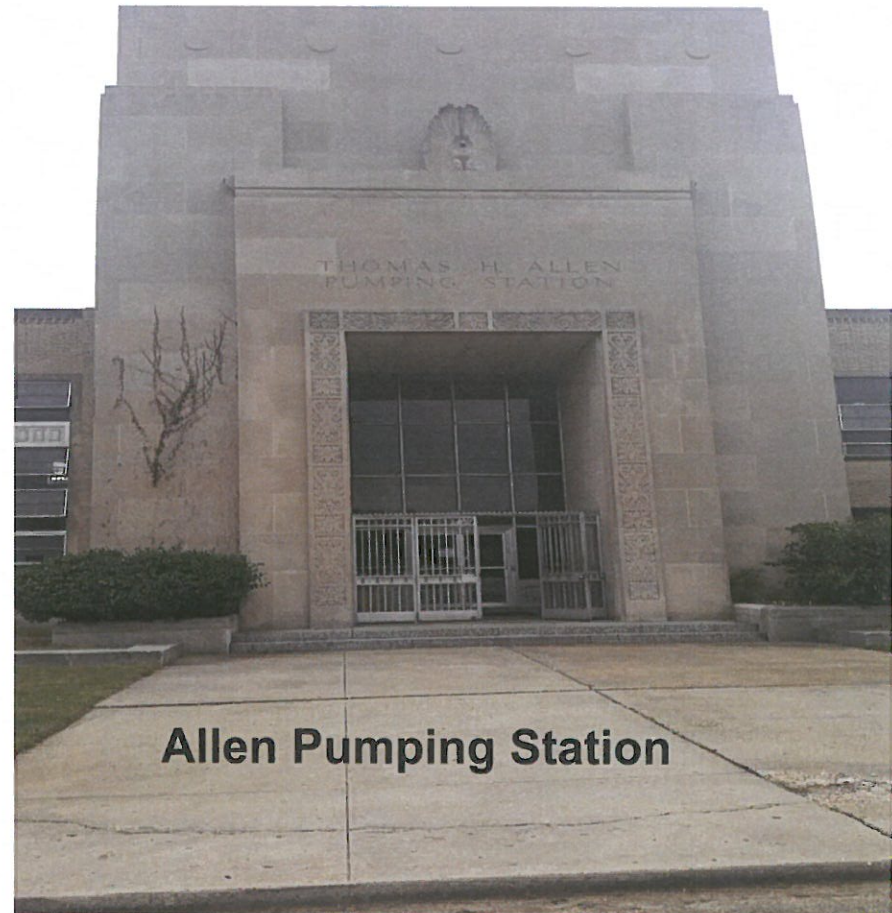


# Pumping Station Rehabilitation



**Mallory Pumping Station**

Dedicated in 1924

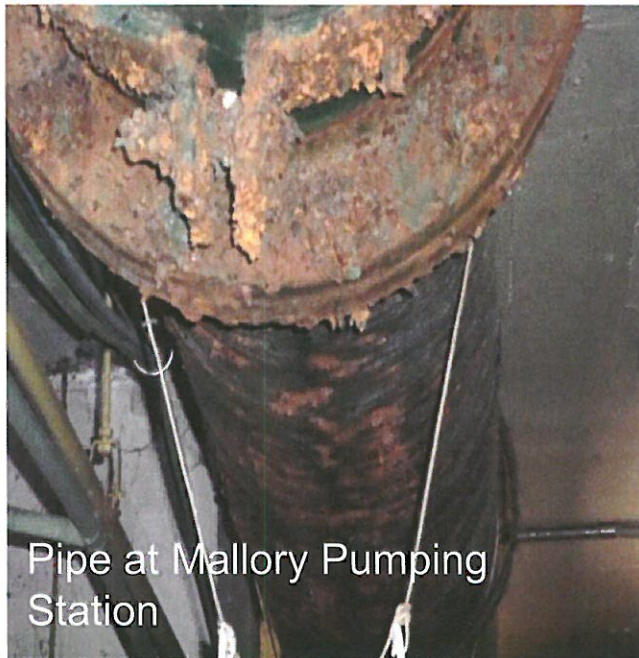


**Allen Pumping Station**

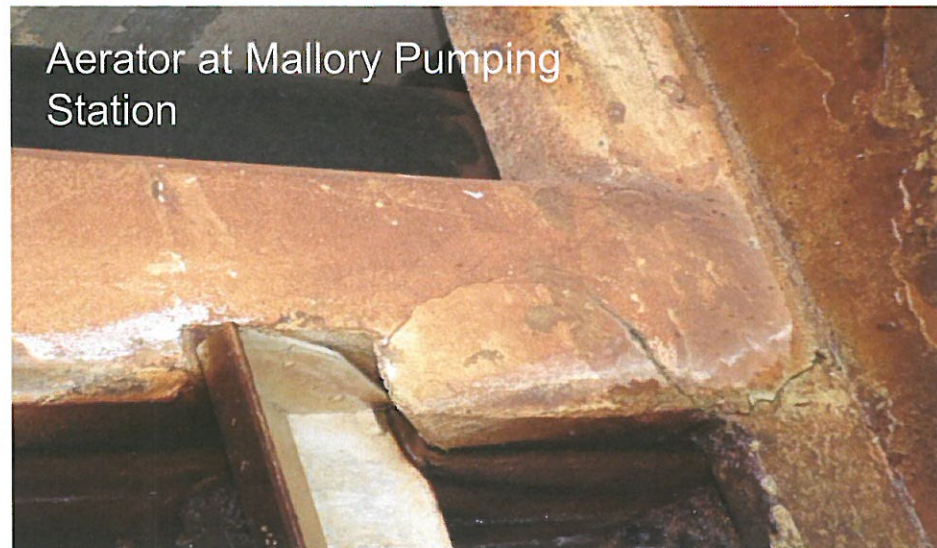
Dedicated in 1953



# Pumping Station Rehabilitation



- Rehabilitating the pumping stations allows MLGW to continue to...
  - maintain the wonderful quality of water for MLGW customers
  - deliver reliable water supply
  - achieve water demand management



# Pumping Station Rehabilitation



- Projects include...
  - Pipe galley rehabilitation
  - Aerator & ancillary piping rehabilitation
  - Rehabilitation of various concrete & metal structures
  - Budgeted costs of ~ \$4.8 million

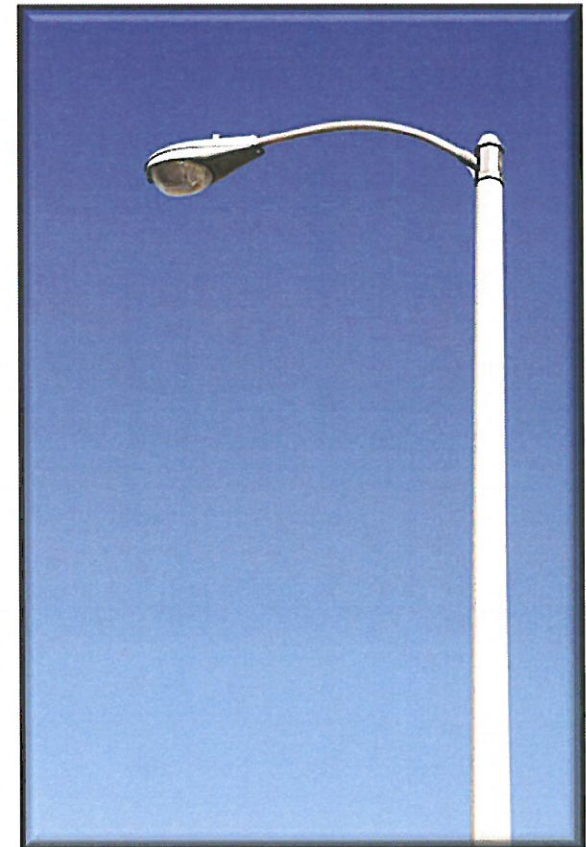


## 2016 Environmental Costs

- Environmental costs continue to rise.
  - 2015 environmental budget is  
\$8,423,546
  - 2016 environmental budget is  
\$10,051,416

# Streetlight Maintenance Efforts

- Presently there are almost 1,500 customer generated work tickets per month (excludes MLGW's internally generated tickets).
- The additional positions added will provide faster response time for streetlight repair
  - 4 street light patrolling crews (8 positions total)
  - 2 underground construction crews (6 positions total)
  - 1 general foreman
- The street light fee will not increase in 2016

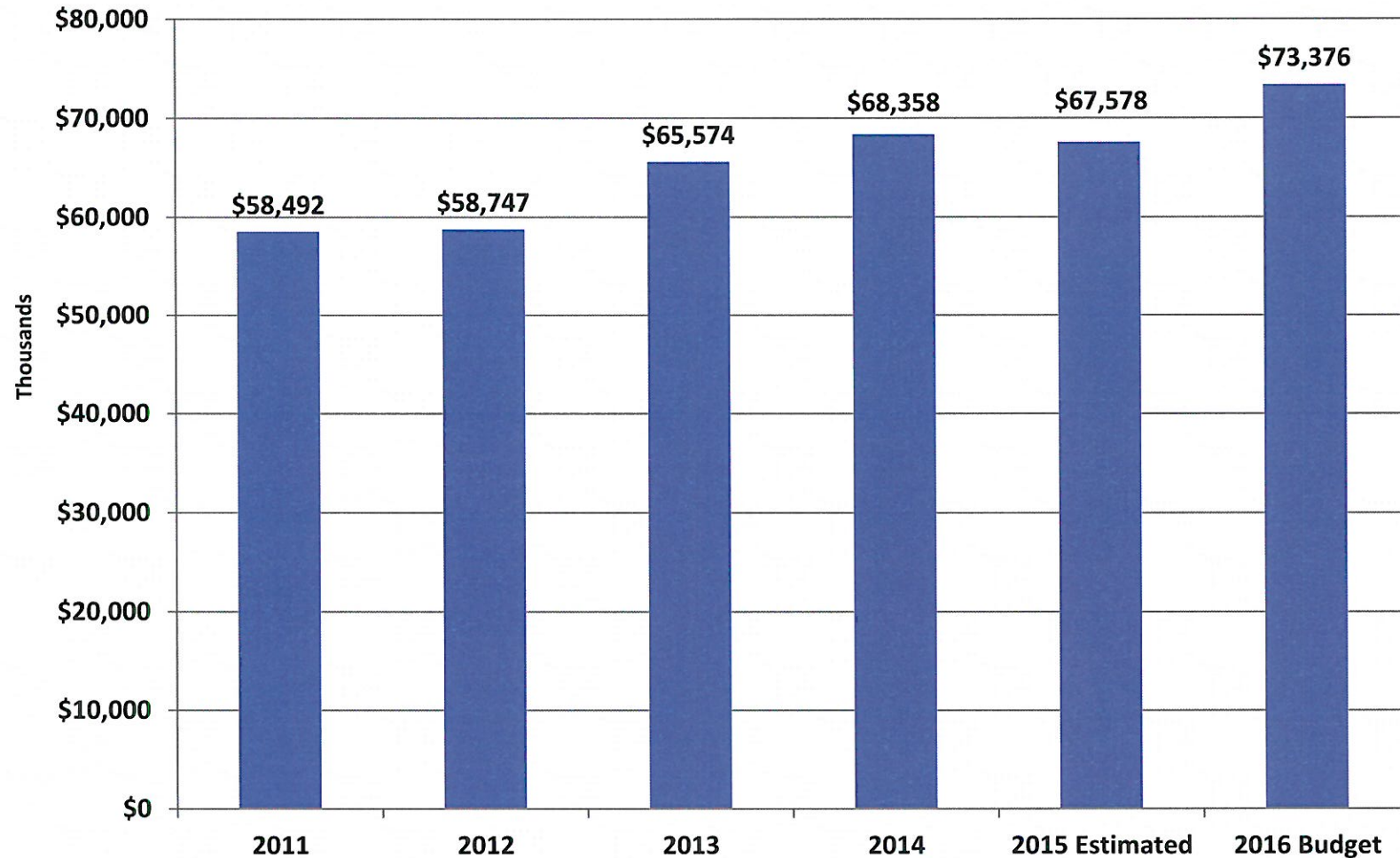


# 2016 Workforce Additions

- Adding a net of 22 positions to the 2016 budget
- Additional workforce is needed to address...
  - The expansion of street light maintenance efforts
  - Improved enterprise asset management
  - Reliability improvement
  - Improved construction-related customer service

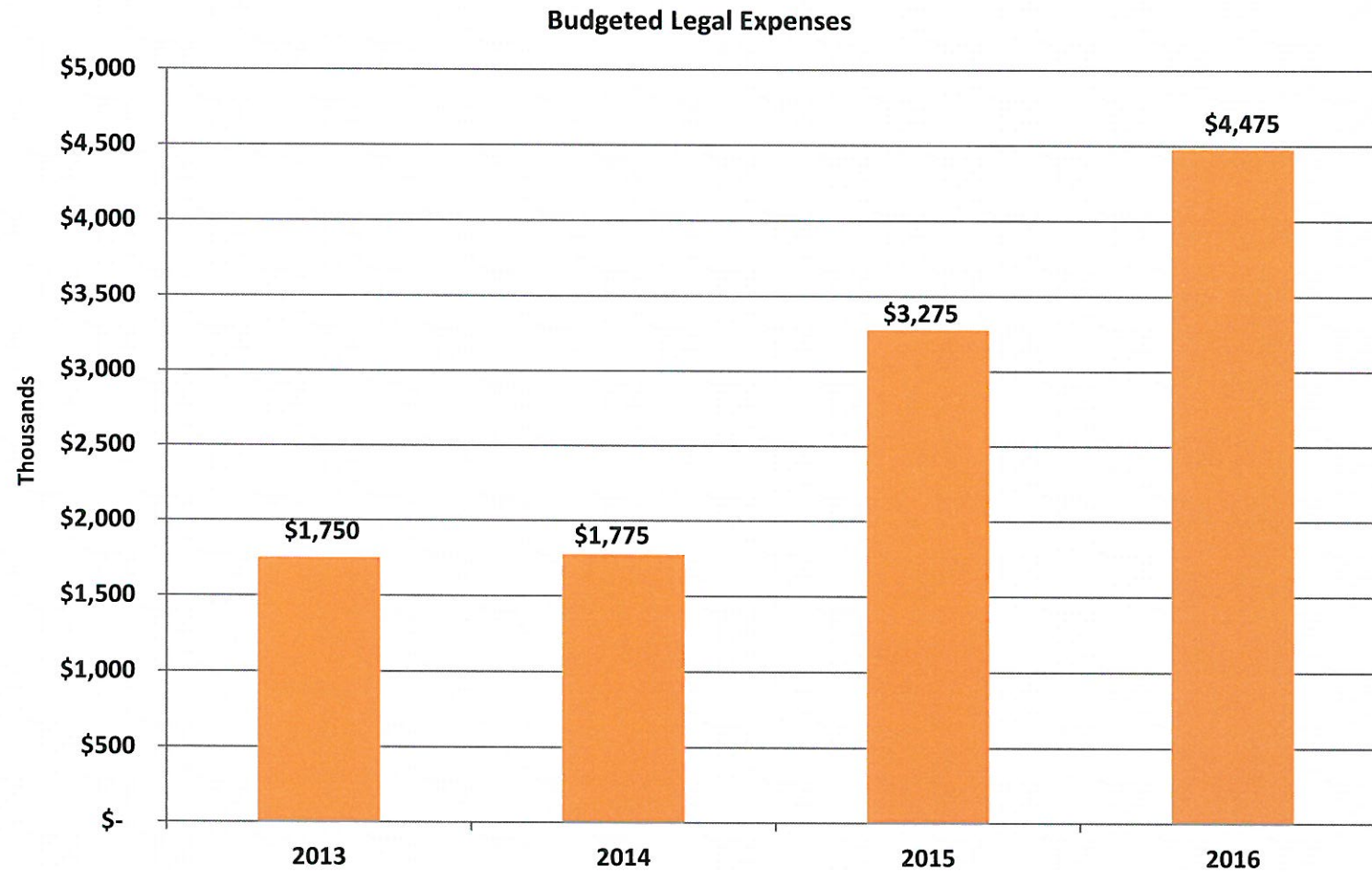


# Payment In Lieu of Taxes (PILOT)





# Legal Expenses



# Water Division Rate Adjustment

Proposing a 22% rate increase to be applied across the rates

## Customer Impacts

W-1 Minimum Bill \$1.40/month increase

W-1 at 10 ccf \$3.31/month increase

This increase will help MLGW achieve positive change in net position



## Why Does MLGW Need a Water Rate Increase?

The loss of Cargill – our biggest water customer

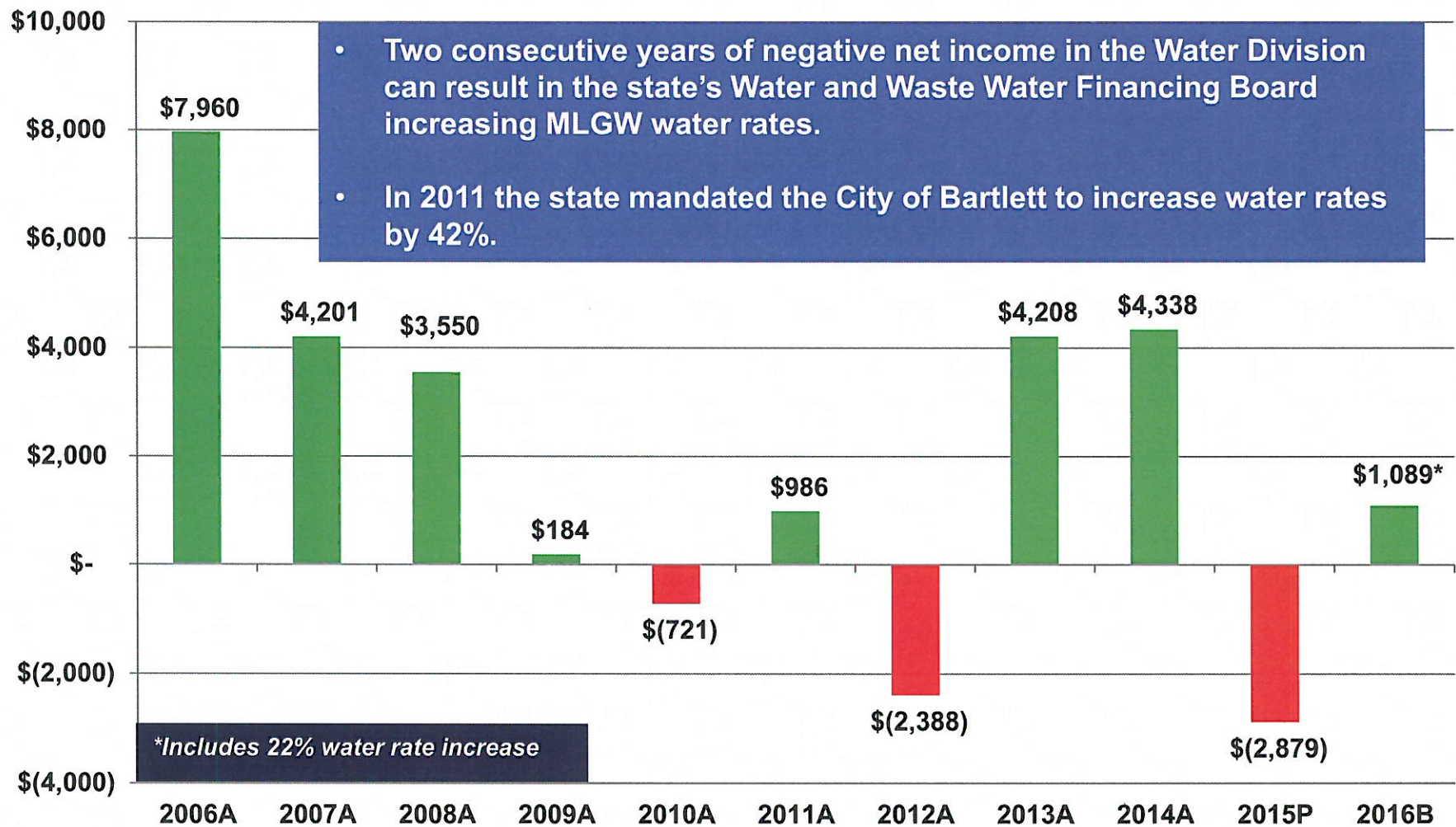
Increasing legal fees

Rehabilitation of water plants

Requirement for Positive Change in Net Position

However, despite the 22% water rate increase, the average residential utility bill will only go up about 1.2% and the average residential utility bill will still be 9.8% less than it was eight years ago.

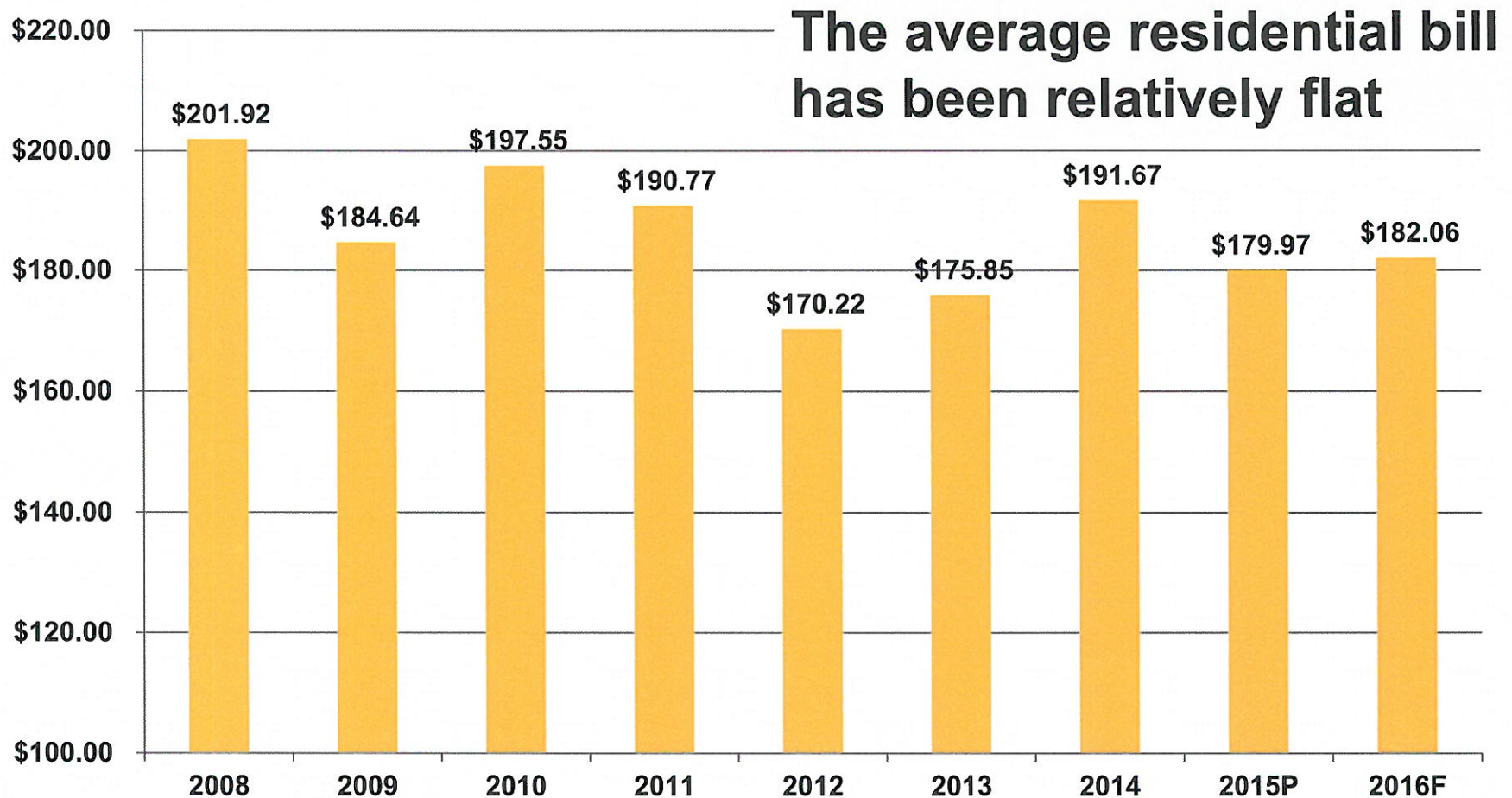
# Water Change in Net Position Trend





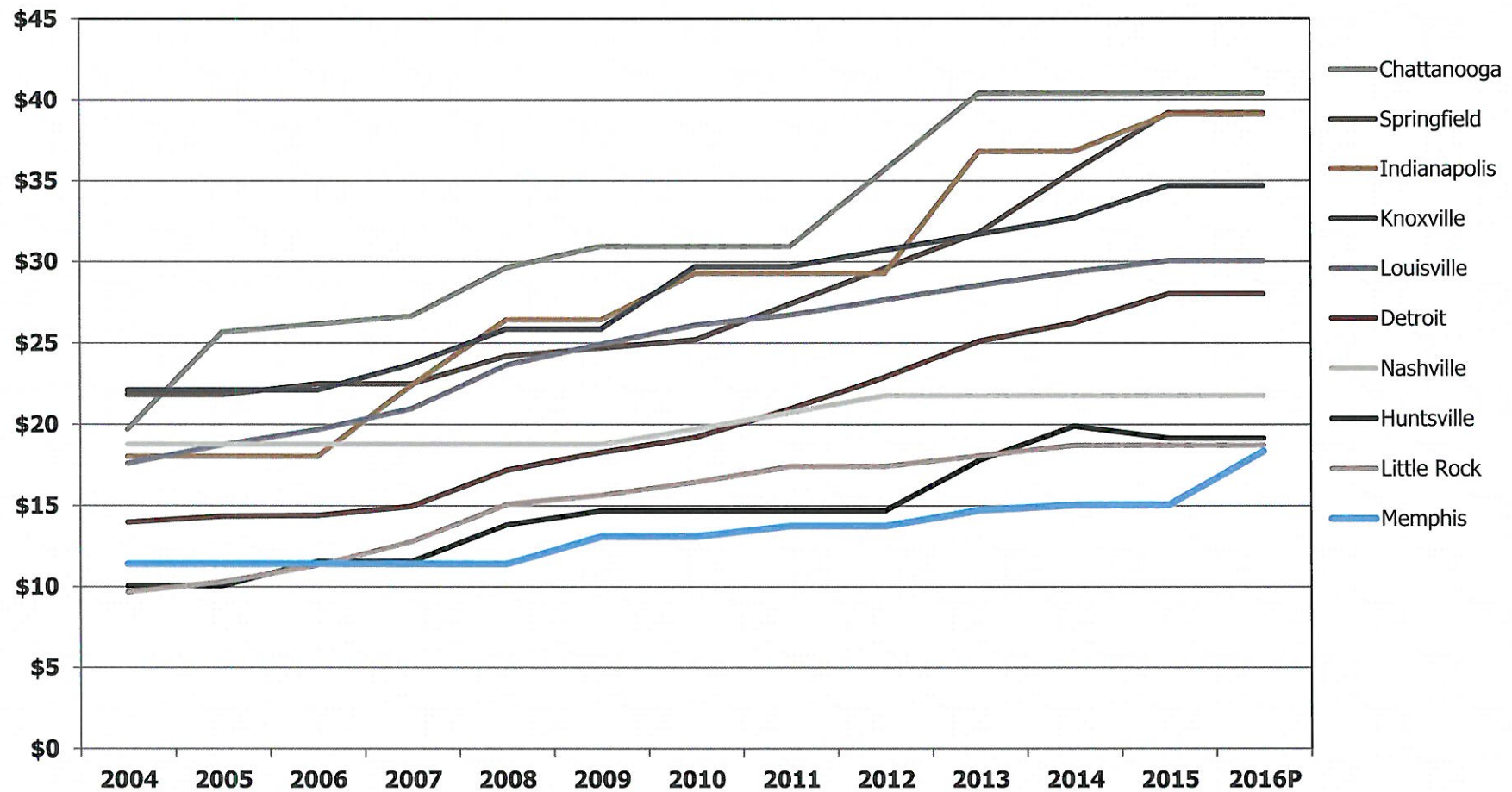
# Average MLGW Residential Bill

*(Total revenue divided by total customers)*



# Typical Water Bill Comparison of Major Cities

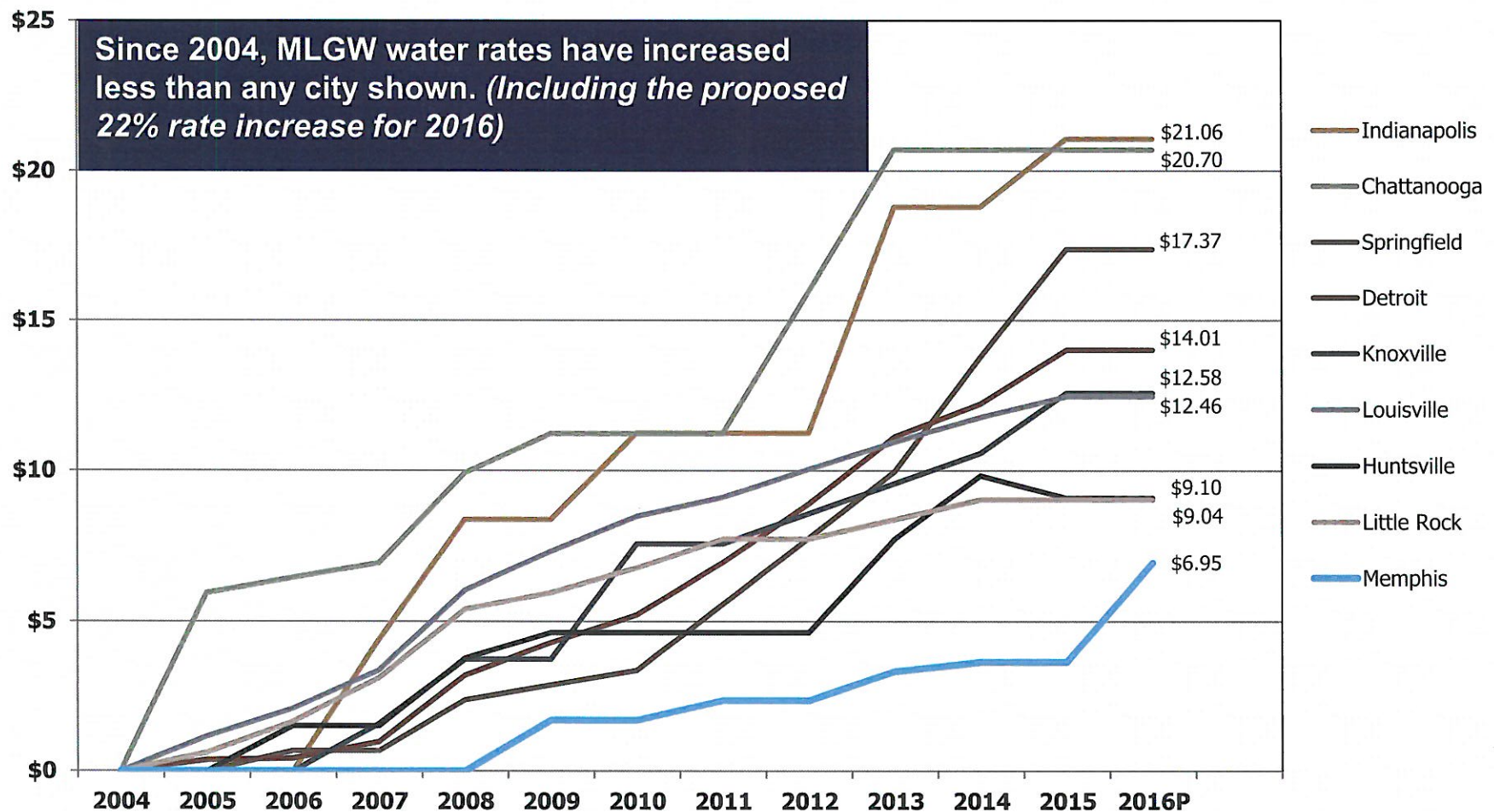
Typical Residential Water Bill Amounts for Selected Cities





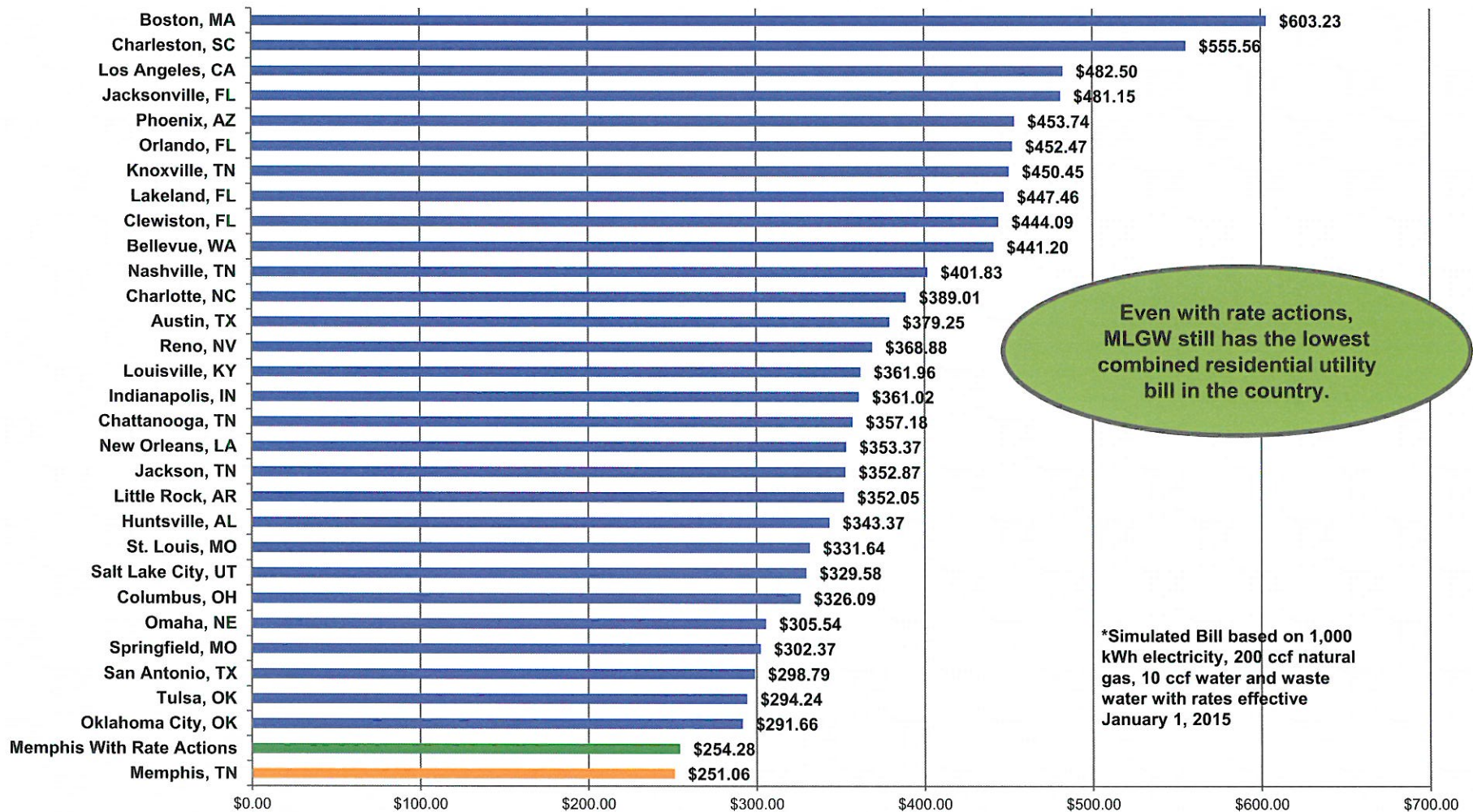
# MLGW Water Rate Change Comparison

## Residential Water Rate Change Amounts for Selected Cities



# MLGW Annual Rates Survey (with rate actions)

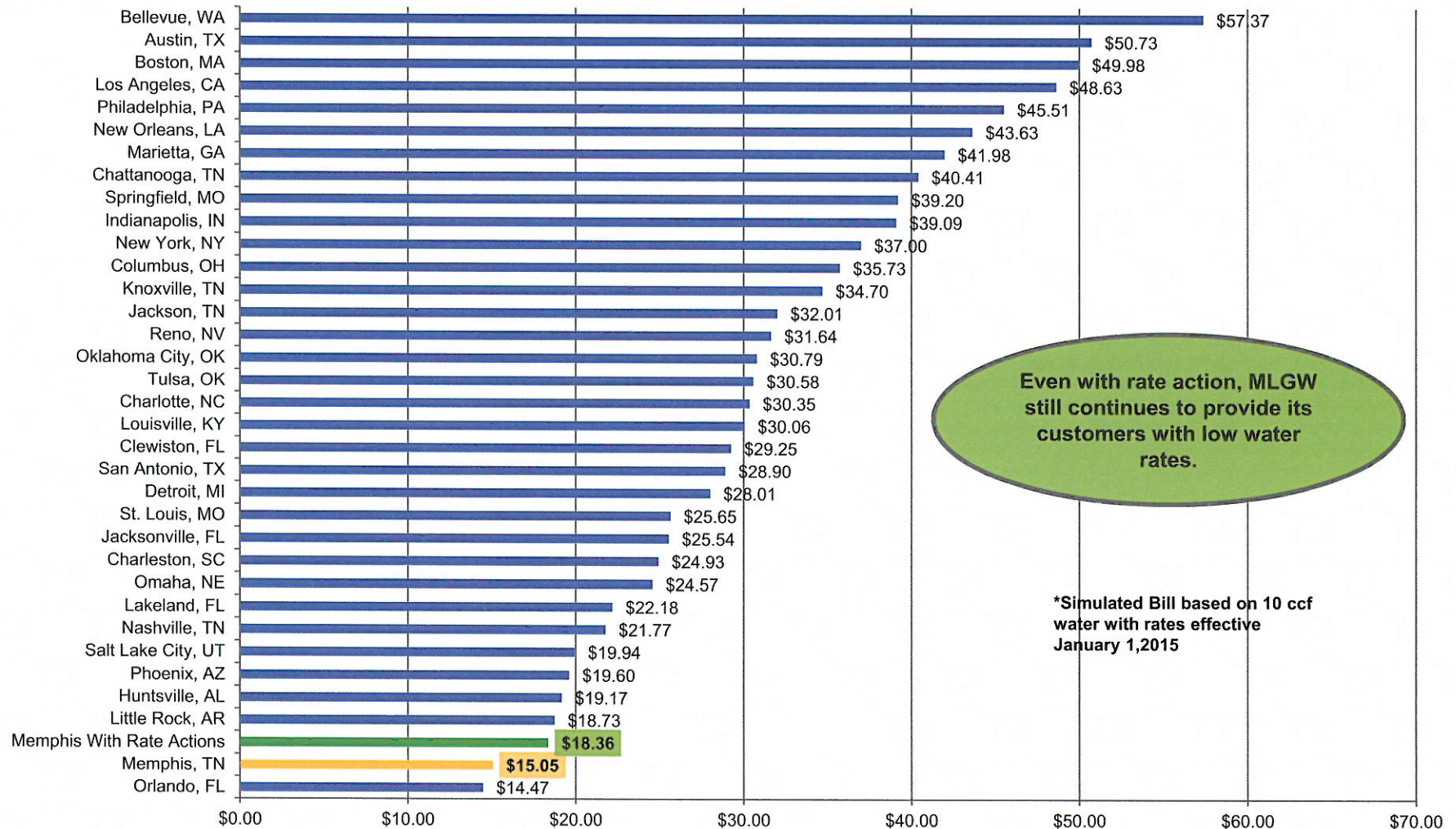
National Residential Bill Comparison\*





# MLGW Annual Rates Survey (with rate action)

**National Residential Water Bill Comparison\***



# 2016 Budget

*All dollars are in thousands unless otherwise noted*

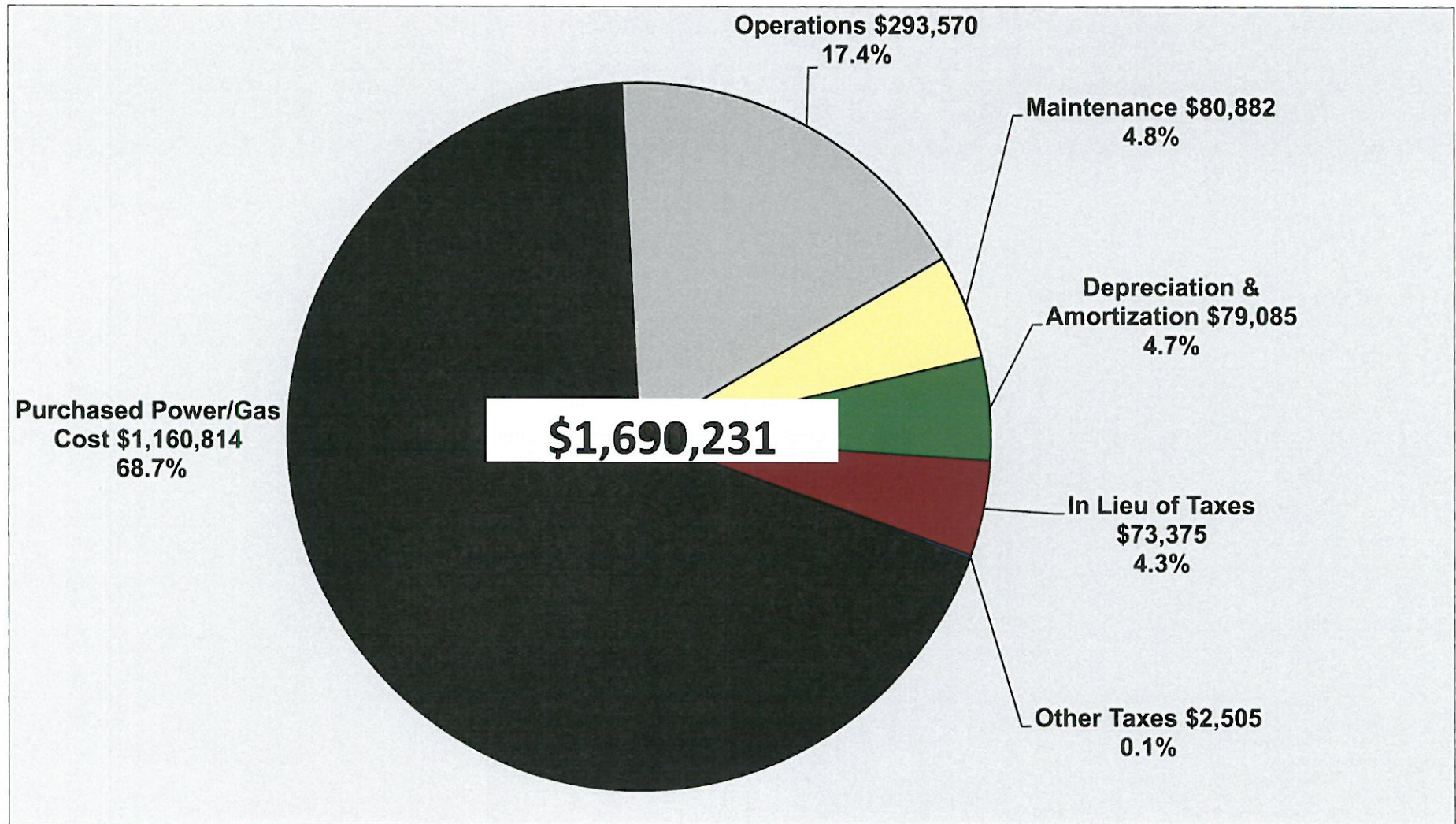


## Budgeted Operating and Capital Expenditures

Category	Electric	Gas	Water	Total
Total Operating Revenue	\$1,262,038	\$268,727	\$101,002	\$1,631,767
O&M Expense	\$189,474	\$98,645	\$86,333	\$374,452
Purchased Power & Gas	\$1,019,343	\$141,471	\$0	\$1,160,814
Depreciation & Amortization Expense	\$51,206	\$19,393	\$8,486	\$79,085
Payments in Lieu of Taxes	\$48,480	\$20,495	\$4,400	\$73,375
Other Taxes	\$1,503	\$576	\$426	\$2,505
Total Operating Expense	\$1,310,006	\$280,580	\$99,645	\$1,690,231
Total Capital Expenditures	\$122,080	\$57,811	\$41,278	\$221,169
Total Operating & Capital Budgets	\$1,432,086	\$338,391	\$140,923	\$1,911,400

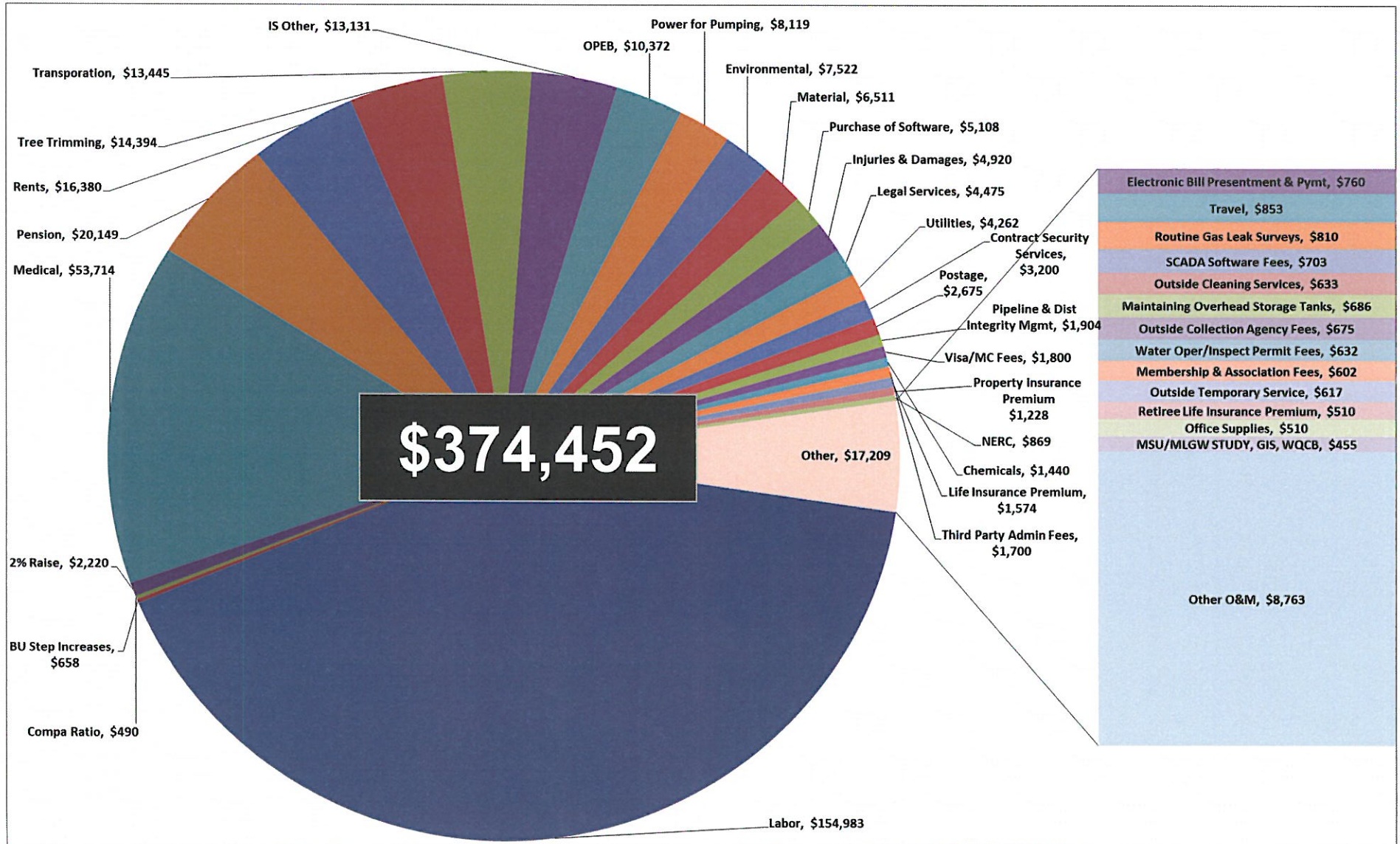


# Total Operating Expense All Divisions





# Operations & Maintenance



Memphis Light, Gas and Water Division Budget



# Division Summary Income Statement

Division/Category	2014 Actual	2015 Budget	2016 Budget
<b>Electric</b>			
Operating Margin	\$251,113	\$242,135	\$242,695
O&M	\$163,525	\$189,494	\$189,474
Depreciation Expense	\$45,566	\$48,589	\$51,206
PILOT/FICA	\$46,865	\$48,371	\$49,983
Other Income	\$55,536	\$50,855	\$48,757
Debt Expense	\$21,581	\$18,776	\$15,915
Change in Net Position	\$29,112	(\$12,240)	(\$15,126)
<b>Gas</b>			
Operating Margin	\$136,291	\$120,802	\$127,256
O&M	\$93,831	\$96,420	\$98,645
Depreciation Expense	\$13,365	\$18,083	\$19,393
PILOT/FICA	\$19,007	\$21,528	\$21,071
Other Income	(\$216)	(\$231)	(\$754)
Debt Expense	\$0	\$0	\$700
Change in Net Position	\$9,872	(\$15,460)	(\$13,307)
<b>Water</b>			
Operating Margin	\$86,181	\$85,070	\$101,002
O&M	\$69,988	\$80,768	\$86,333
Depreciation Expense	\$7,522	\$7,004	\$8,486
PILOT/FICA	\$4,792	\$4,804	\$4,826
Other Income	\$723	\$685	\$704
Debt Expense	\$264	\$457	\$972
Change in Net Position	\$4,338	(\$7,278)	\$1,089

W



# O&M Changes from 2015 Budget

Category	2015 Budget	2016 Budget	Variance Dollars
<b>Total O&amp;M</b>	<b>\$ 365,158</b>	<b>\$ 374,452</b>	<b>\$ 9,294</b>
Labor	\$ 142,511	\$ 147,925	\$ 5,414
Tree Trimming	\$ 12,668	\$ 14,394	\$ 1,726
Pumping Station Rehabilitation	\$ 5,772	\$ 7,522	\$ 1,750
Interdivisional Rents	\$ 14,744	\$ 16,380	\$ 1,636
Purchase of P.C. Software & Software Maintenance	\$ 7,172	\$ 8,516	\$ 1,344
Water Rights Lawsuit	\$ 3,275	\$ 4,475	\$ 1,200
Outside Professional Services	\$ 6,170	\$ 7,285	\$ 1,115
Pension	\$ 23,173	\$ 20,149	\$ (3,024)
OPEB	\$ 12,227	\$ 10,372	\$ (1,855)
Net of Other Changes	\$ 137,446	\$ 137,434	\$ (12)
<b>Total Variance Explained</b>			<b>\$ 9,294</b>

## 2016 Proposed Position Activity

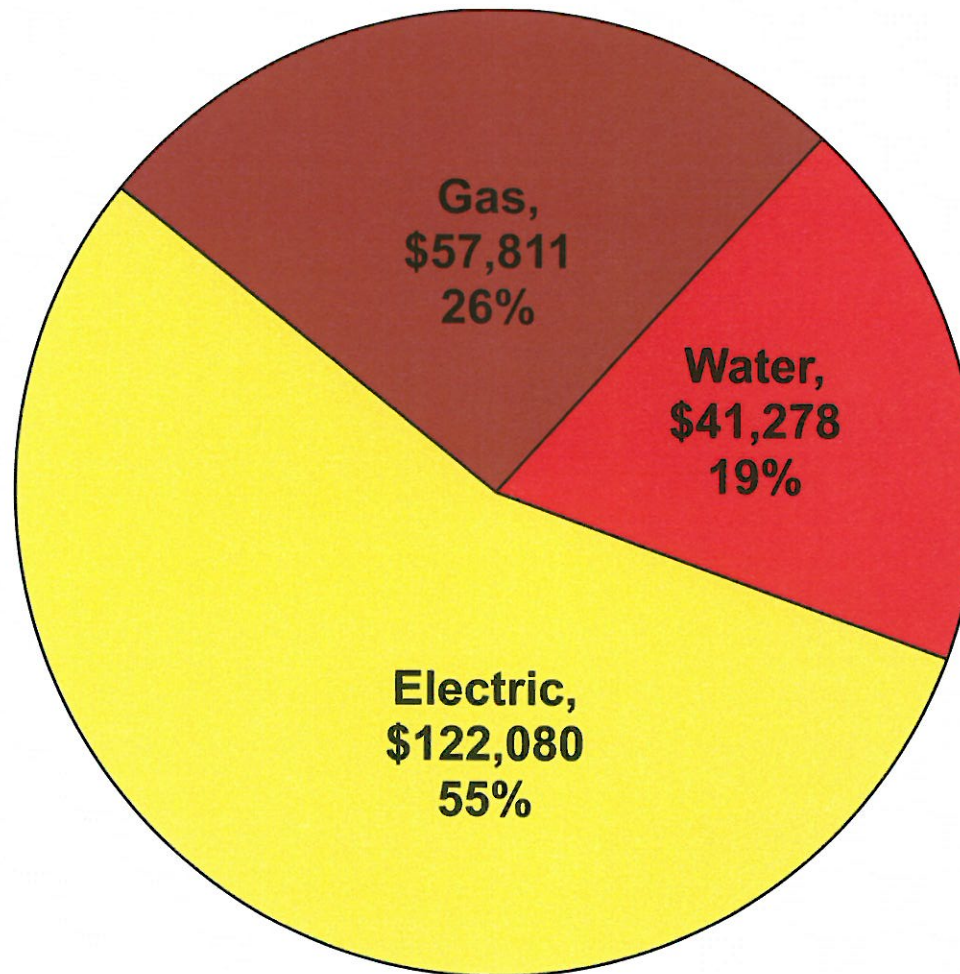
- 22 net new positions - \$2.6 million
- 2016 Complement - 2924 positions
- 2016 Total Labor Budget - \$183.7 million

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# Capital Budget Spending Breakdown



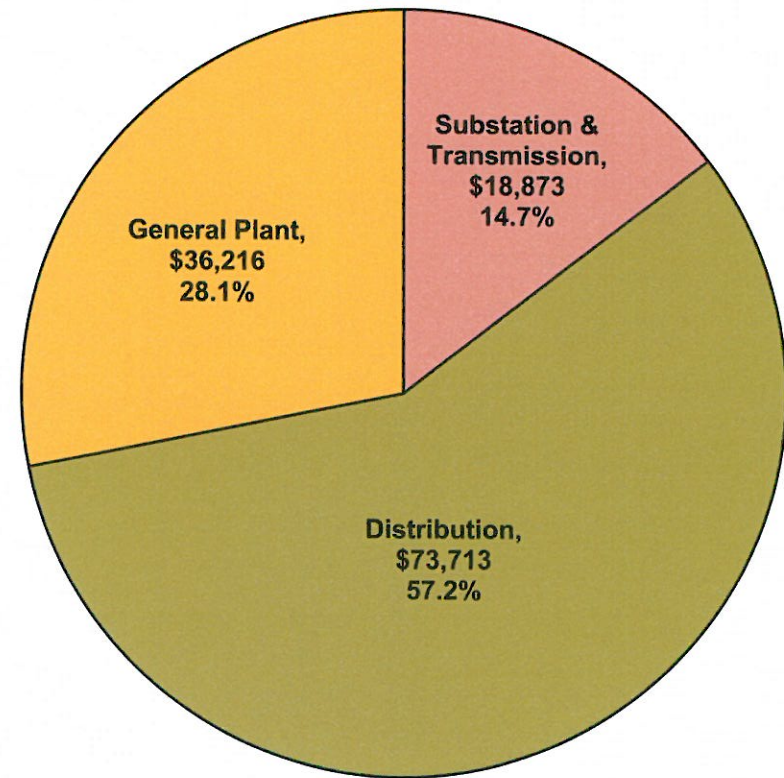
**\$221,169**

Memphis Light, Gas and Water Division Budget

# Electric Capital Spending Breakdown

## Electric Capital Highlights

<u>Purchase of Meters &amp; Metering Equipment</u>	<u>\$18,183</u>
<u>Data Processing</u>	<u>\$16,488</u>
<u>Smart Meter Infrastructure</u>	<u>\$13,860</u>
<u>Extensions to Serve New Customers - UG Apts. &amp; Commercial</u>	<u>\$9,771</u>
<u>Purchase of Trans. &amp; Power Operated Equipment</u>	<u>\$9,551</u>
<u>Replacement of Substation Transformers</u>	<u>\$7,500</u>
<u>Street Lighting</u>	<u>\$6,837</u>
<u>Replacement of Distribution Transformers</u>	<u>\$5,600</u>
<u>Replacement of Feeder Circuit Cable</u>	<u>\$4,000</u>
<u>Replacement of Poles &amp; Equipment</u>	<u>\$3,000</u>



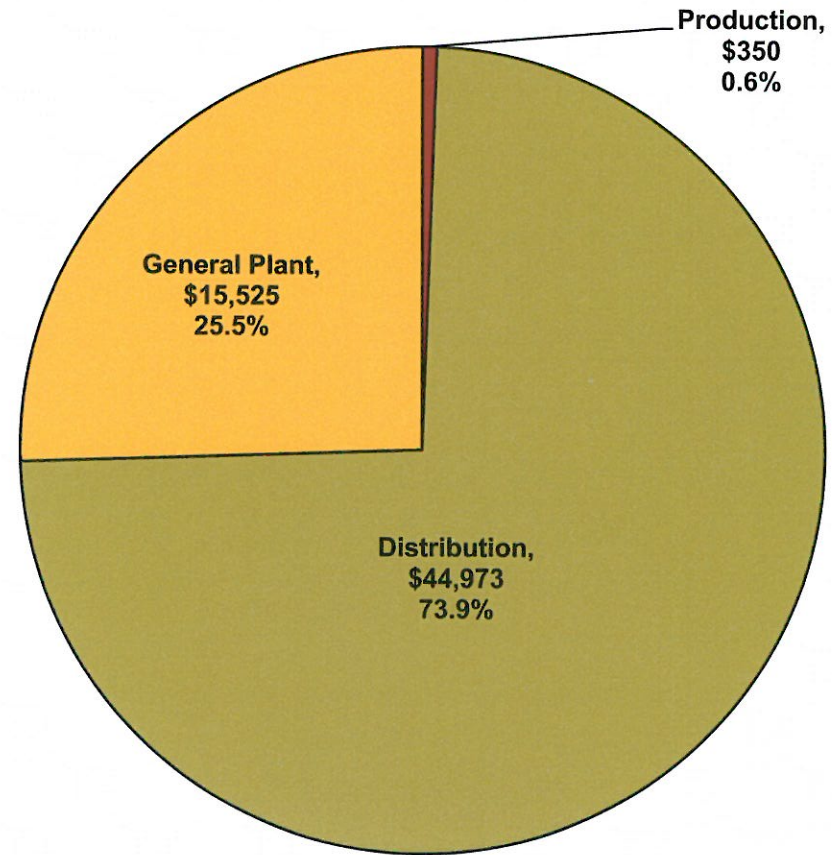
**\$122,080**



# Gas Capital Spending Breakdown

## Gas Capital Highlights

Purchase of Meters & Metering Equipment	\$24,919
Pipeline Integrity Management	\$8,125
MSS System Replacement	\$6,984
Retrofit Cast Iron System & Steel Taps	\$6,000
Purch. of Trans. Equip. & Power Operated	\$4,132
Extensions to Serve New Customers	\$2,023
Relocation of Mains - Street Improvements	\$1,635



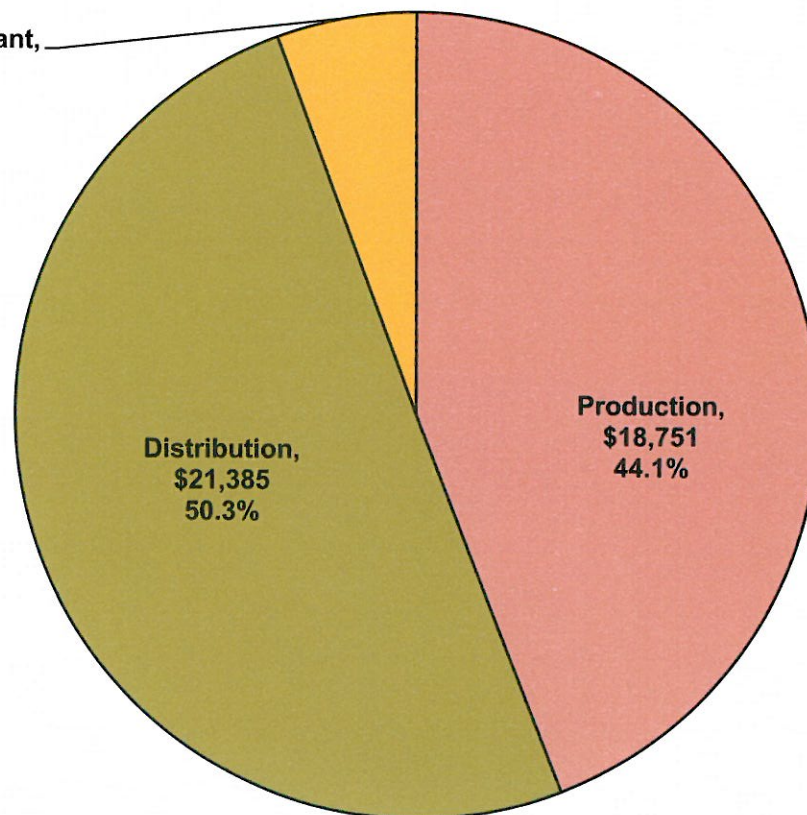
**\$57,811**

# Water Capital Spending Breakdown

## Water Capital Highlights

Purchase of Meters	\$14,381
Mallory Pumping Station Upgrades	\$3,415
Extensions to Serve New Customers	\$3,362
Davis Pumping Station Upgrades	\$2,280
Shaw Pumping Station Upgrades	\$1,915
Relocations of Mains - Street Improvements	\$1,875
Allen Pumping Station Upgrades	\$1,295
Purch. of Trans. Equip. & Power Operated	\$1,243
Palmer Pumping Station Upgrades	\$1,200

General Plant,  
\$2,401  
5.6%



**\$41,278**



## 2016 Key Budget Drivers

- Reliability improvements
- Increasing regulatory costs
- Pumping station rehabilitation
- Environmental remediation costs
- Streetlight maintenance efforts
- Addition of 22 net positions to the workforce
- Payment in lieu of taxes (PILOT)
- Water rights lawsuit legal fees
- Water rate adjustment
- Total O&M increase of 2.6%
  - 2015 O&M, \$365,158
  - 2016 O&M, \$374,452

# 2016 Rate Actions

*All dollars are in thousands unless otherwise noted*



## Gas Division Revenue Neutral Rate Changes

Structural changes to rate schedules that do not generate additional revenue for MLGW

Adjustment to small commercial service charges to reflect currently available gas meter sizes. Service charges are based on meter size

Changes to block structure on large commercial rates

Combined two transportation rates into one

# Water Division Rate Adjustment

Proposing a 22% rate increase to be applied across the rates

## Customer Impacts

W-1 Minimum Bill \$1.40/month increase

W-1 at 10 ccf \$3.31/month increase

This increase will help MLGW achieve positive change in net position



## Electric Division Revenue Neutral Rate Changes

Structural changes to rate schedules that do not generate additional revenue for MLGW

Rate restructure proposed to enhance recovery of fixed costs

Residential Rate Actions

- Increase service charge

- Revised block structure

LED leased outdoor lights new rate offering